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SUBJECT: Where's inflation heading?

1. Summary: After studying the latest Reserve Bank (RBZ)/Central Statistical Office (CSO) figures and comparing notes with local economists, we believe year-to-year inflation will continue to fall to 250-320 percent through the end of 2004. In early/mid-2005, it will again head upwards to at least 400 percent. As parliamentary elections near, mushrooming inflation may put the GOZ in an awkward position. End summary.

2. Monthly inflation fell sharply Nov 2003-April 2004 (34 to 5 percent) as a consequence of the GOZ's more strident enforcement of an official exchange rate. During April-July, it rose each month to a recent 10 percent. While monthly inflation will almost certainly continue to rise through the year's end, year-to-year inflation - the GOZ's historic barometer - should fall as new monthly figures replace peak rates during Sept-Nov 2003 (25-34 percent per month). The seesaw trend looks like this:

MONTHLY INFLATION RATES

Downward

Nov 2003	34 percent
Dec	11
Jan 2004	14
Feb	6
March	6
April	5

Upward

May	6
June	9
July	10

We feel that further devaluations both in the official and parallel rates as well as higher wage and fuel costs will push monthly CPI increases to at least 15 percent by December. Sometime in early/mid-2004, the year-to-year rate could easily reach 400 percent. (Ten percent monthly inflation, for example, compounds to an annualized 272 percent.)

3. Comment: Using the nominal zimdollar exchange rate as its weapon, the RBZ has declared disinflation as its prime goal. RBZ Governor Gono forecast a 200 percent rate by year's end, just before it peaked at the hyperinflationary threshold (623 percent) in January. Even if the year-to-year rate falls to 300 percent, the GOZ and RBZ will declare victory. Celebrations may be short-lived. If year-to-year inflation starts upward before the scheduled March parliamentary elections, it may complicate GOZ claims of economic rebound, even according to its narrow performance measure.

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